

**WAYS & MEANS, REAL ESTATE TRANSACTIONS & FINANCE COMMITTEE  
of the  
Suffolk County Legislature**

**Minutes**

A special meeting of the Ways & Means, Real Estate Transactions & Finance Committee of the Suffolk County legislature was held in the Rose Y. Caracappa Legislative Auditorium of the William H. Rogers Legislature Building, 725 Veterans Memorial Highway, Smithtown, New York, on **April 3, 2003**, to discuss the matter of the Employee Medical Health Plan of Suffolk County.

**Members Present:**

Legislator George Guldi - Chairman  
Legislator Andrew Crecca - Vice-Chair  
Legislator David Bishop  
Legislator Michael Caracciolo  
Legislator Ginny Fields  
Legislator Martin Haley

**Members Not Present:**

Legislator Vivian V. Fisher

**Also in Attendance:**

Paul Sabatino - Counsel to the Legislature  
Tom Donovan - Aide to Legislator Guldi  
Eben Bronfman - Aide to Legislator Guldi  
Leonard Grecco - Aide to Legislator Caracciolo  
Frank Tassone - Aide to Legislator Crecca  
Carl Yellon - Aide to Legislator Crecca  
Roger Podd - Aide to Presiding Officer Postal  
Ray Zaccara - Aide to Legislator Bishop  
Jim Spero - Deputy Director/Budget Review Office  
Bill Faulk - County Executive's Office  
Ken Knappe - County Executive's Budget Office  
John F. Shea III - Counsel Representing The Segal Company  
Bryan C. Van Cott - Counsel Representing The Segal Company  
Michael McGinn - Former Senior Vice-President/The Segal Company  
Larry Singer - The Segal Company  
Dee Carlisi - The Segal Company  
Frank Guglielmo - The Segal Company  
Pete O'Leary - Co-Chair/EMHP Board & President/Detective's Association  
Jeff Tempera - Co-Chair/EMHP Board & Director/Labor Relations  
Phyllis Garbarino - Member/EMHP & President/AME  
Arty Cliff - Member/EMHP Board & Pres./Superior Officer's Association  
Eric Askerberg - Personnel & Labor Relations/Asst to Director  
Janet Ioli - Deputy Comptroller/SC Department of Audit & Control  
Alan Schneider - Director/Department of Civil Service  
Margaret Ann DeMarzo - Civil Service/Employee Benefits Supervisor



Paul greenberg - Civil Service/Director/Employee Services Division  
Frank DiSanto - Civil Service Dept/Employee Services Division  
Debbie Troice - Civil Service Department  
John Cochran - Suffolk County Treasurer  
Robert Cabble - County Attorney's Office  
Robert Barry - District Attorney's Office

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Tom Iacopelli - District Attorney's Office  
Kathleen Carroll - CW Post College  
J. Jioni Palmer - Newsday  
All Other Interested Parties

Minutes Taken By:  
Alison Mahoney & Ana Grande - Court Stenographers

(\*The meeting was called to order at 10:12 A.M.\*)

CHAIRMAN GULDI:  
We'll start with a pledge led by Legislator Caracciolo.

Salutation

Remain standing for a moment, we'll have a moment of silence for the safety of our servicemen abroad and noncombatants and a prompt return to peace.

Moment of Silence Observed

Thank you. All right, this is the special meeting of the Ways & Means, Real Estate Transactions & Finance Committee. Today we have -- Segal & Company is here at our strong invitation. I have been in discussion with Counsel to Segal to arrange for their appearance today. They -- he advises me that he has a spokesman that he will make a presentation, that he is several witnesses in addition to those we requested present here today to answer our questions when we get to them. Opening statements at all?

MR. SHEA:  
Mr. Chairman, John Shea, Toomey, Latham, Shea & Kelly, Counsel to The Segal Company. Our first witness today will be Mike McGinn.

MR. MCGINN:  
Thank you.

CHAIRMAN GULDI:



Mr. Shea, my colleague asked me to verify that the two people that we did ask for are present in addition to others?

MR. SHEA:

Yes, they are.

CHAIRMAN GULDI:

Could you just give us the names of who's present, either one.

MR. SHEA:

Present with us today are also Larry Singer, Dee Carlisi and Frank Guglielmo.

CHAIRMAN GULDI:

And your name was McGinty, sir?

MR. McGINN:

It's Michael McGinn, M-C-G-I-N-N.

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CHAIRMAN GULDI:

I know too many people who have the same approximate letters. So I'll apologize now for when I call you by others names throughout the hearing.

MR. McGINN:

I'll answer to them. All right, I'm --

CHAIRMAN GULDI:

Yeah, I understand you have a presentation to make. I'm going to ask my colleagues to let you make your presentation in its entirety before we begin with questions. Please just take notes of your questions, we'll go back to your presentation -- to the areas in your presentation at the end, if that's the way you would prefer.

MR. McGINN:

It is. Thank you, sir.

CHAIRMAN GULDI:

Thank you.

MR. McGINN:

I would like first to give you a little idea of my background. I'm a former Senior Vice-President of The Segal company with over 30 years of employment with The Segal Company. During that time I was a director of the company and board member for approximately 15 years.



I have extensive experience in the management of large self-funded medical systems and the clients that I provided consulting services would include American Express here in New York, the State of South Carolina with 125,000 employees, the Mayo Clinic, Cox Enterprises and so forth. I'm retained by The Segal Company to assist on special projects.

And a bit of background about The Segal Company. The Segal Company is a national consulting firm, it was founded in New York in 1939 by Martin E. Segal. Its primary business is consulting in actuarial services for employee benefits systems, and that breaks into two basic kinds of services that we provide for health plans and pension plans. And the two major components of our services are consulting which is generally advice on architecture of the systems and administration and actuarial services which include the calculation of rates, reserves and projections. The Segal Company has had a successful history and we enjoy an excellent reputation. We've had steady growth from 1939 until now; in 1939 we started with three employees and today we have close to a thousand employees in 20 offices throughout the United States and Canada.

Our relationship with the Suffolk County Health Plan began after -- and it's important to kind of note the dates here. Starting in 1990 -- 1988 there's memoranda and correspondence relating to Suffolk County removing their health benefits from the Empire Plan, and that correspondence continued until the plan actually was removed in 1992, it took about a four year period of time to make that change. In 1992 The Segal Company was retained to provide consulting services, not actuarial services, and those services included working on the plan of architecture, benefits administration, communication matters and

monitoring the Empire Plan benefits. In 1996, The Segal Company was retained further to provide actuarial services and those actuarial services consisted of providing cost projections, analytics on plan changes and reporting historical results.

Our presentation today is -- my presentation, our presentation, is designed to add clarity to this issue, and it will hopefully give you a historical perspective. It's going to be supported by eleven documents that will be sequentially distributed to you as we go through this material; it consists of exhibits, minutes and Legislative testimony. All of this is designed to allow to you have a clear picture of the facts and circumstances regarding this issue so that you can act accordingly.



Now, having said that, what I would like to do is start by clearing up certain misperceptions and misstatements. There's been a great deal of press and statements by public officials asserting that there have been losses by the County Health Plan and that those losses have been caused by The Segal Company; there have been no losses in the plan and you're going to see documents that will demonstrate that. People have been misled or confused as to the meaning of a certain cost comparison between the County Health Plan and the New York State Empire Plan, and that cost comparison which will be discussed in just a minute has nothing to do with any deficiency in funding the Suffolk County Health Plan.

Now, we've got some complex issues here and some intricate financial things, so we will be taking you through all of these documents, but I do believe that if the -- at the end of this session that the documents will support the representations that we're making. So the first item that we have that's going to be distributed to you is what we call table one.

CHAIRMAN GULDI:

Just provide the documents to one of my aides, Tom at the end and he will distribute it to the Legislature. Tom, come up, take the documents, thanks, and just do that from now on.

MR. McGINN:

Thank you. This illustration has been prepared to allow you to see the development of a funding deficiency starting with the period beginning in 1997 and ending in 2002. And what I would like to do is run you across -- take you across the columns, identify what those are and then we want to focus on one particular year; you can see the areas that we're going to be focused on because they're highlighted on your copies.

The first column on the left-hand side is cost projection by Segal. The cost projections by Segal are contained in our annual reports. When we do an annual report, let's say, for the year 1990 -- let's say we're doing the annual report for the year 1996; that report is delivered in 1997, it contains the actual results for '96, projections for the rest of '97 and a projection for the next year which would be 1998. So it's that reaching projection that is contained in this first column on the left-hand side.

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The next is the amount of County contribution. The next column is other income which consists of COBRA contributions, dependent survivor



premiums and so forth as noted in the footnote. And then you have total contributions and then you have the actual County cost for operating the plan. And then you have a surplus or deficit had the County funded according to the Segal projections and then you have a deficit due to the County due to under-funding by the County.

Let's take 1997. We projected that the cost were going to be \$98,900,000. The County's contribution during that period of time consisting of these two pieces totaled \$91 million, the actual cost came in lower than expected at 97, so you have a surplus in both columns. The year went well according to both what you had funded and what we had projected.

In 1998, we projected that the cost of the plan would be \$100 million. The County's contribution was \$15 million less than the previous year, \$73 million. Other income consisted of 4.2, total contributions \$77 million, the actual cost for the year turned out to be 93. That particular year there would have been a surplus of 6.8 million if it had been funded to our projections and -- but according to County funding it produced a deficit for that year of \$15.6 million.

So what you can see here is year by year, from 1997 through the year 2001, how much we had projected the plan would cost, how much the total contributions by the County consisting of the County's contribution and other income, what the actual cost of the plan was for that period and what the end result was according to what was funded and what was projected.

The one item I would like to note on this page, we have another exhibit that will continue this, is that the -- for the five year period of time, our projection total is \$533 million, the actual cost of the plan for that period of time was \$524 million; the numbers are one and a half percent apart. And in forecasting the cost of health care, you get peaks and valleys in given years, over time if you are doing your job correctly you will have very accurate results. One and a half percent is a very accurate result, major insurance companies would be happy with this kind of result, with this kind of accuracy.

So bottom line is that on this page and on the next exhibit that you'll see, if we could hand that out now, is that if the Suffolk County Employee Medical Health Plan, Suffolk County Health Plan, had been funded according to our projections, the County would have \$8.9 million, would have had a surplus for that period of time. And instead, because of the -- for whatever reason, funding was not to our projections and the end result was the \$21 million deficit.

Table two just simply displays this information a little bit differently and memorializes the key findings as I've just done. Basically, the key findings are that in actuality you had a \$21 million funding deficiency, if you'd funded according to the



projections the number would have been \$8.9 million; 8.9 million surplus. The conclusion on this point is that the reason the plan was under-funded had nothing to do, had nothing to do with the cost

comparison between the Suffolk County Health Plan and the Empire Plan; there's nothing relating to the Empire Plan in this illustration.

Now, what we'd like to do is go into cost comparison between the Suffolk County Health Plan and the Empire Plan, noting that the cost comparison that was the subject of so much press in the fall was never a requirement of the contract the County issued to The Segal Company during the entire history of the County, it was never even proposed to be a task under the contract, under the contract with The Segal Company until a 2002 draft was issued by the County but that contract was never signed. The 1997 Segal contract called for a comparison of certain benefits but not costs. In the instances where a cost comparison was done, it was plainly not a decision making tool but rather it was an historic point of reference to the Empire Plan which is a result of changes in the County plan over a number of years differed from the County plan. You will see as we go through some of the materials that the Suffolk County plan and the Empire Plan parted ways starting in 1992. And you will see that the Empire Plan benefits were set up to be a floor, that there's words in the documents that we're going to give you that indicate that that was the minimum, that enhancements were anticipated and that modifications to administrative systems and other things were also anticipated. So the plans started off being very similar and over the course of time diverged both in terms of their structural benefits and in terms of the administrative systems and other items that affected both the ability to get reporting on financial stuff, employee satisfaction and so forth.

So we've got -- the next item is going to be -- the next item is going to give you a little bit more historical perspective. This is a 1988 memorandum from Phil Bauccio and it is regard -- it's to the members of the Health Benefit Review Committee and it's regarding the establishment of the Suffolk County Health Plan, and he titles it "Health Insurance Fact Sheet". There are some areas in here that are good references and we'll be referring back to this a little later on. But there's a comment in here that's really important and that we'll focus on later. It says, "While financial aspect of the Suffolk County Plan as compared to the State Program are important, a decision to move should not be based solely on financial considerations. Improved administration and control indicate potential savings." And then on the next page there are several non-financial aspects that



must be considered and these factors are every bit as important as the financial aspects of the program.

What Mr. Bauccio is referring to, if you take a look at the next page and you look at the advantages and disadvantages of continuing with the Empire Plan or setting up your own Suffolk County Benefit Program, you look at the disadvantages of remaining with Empire and the advantages of doing -- and they tend to -- they tend to work with each other. Let's go down the disadvantages. Suffolk County does not have the ability to influence a program to modify the level of benefit. Suffolk County's participation in the Empire Plan represents 6% of the total. The Empire Health Plan has 425,000 participants, 425,000 participants and your involvement in that gives you a 6% say in what goes on, or did. The benefits are not geared to the need of Suffolk County employees. The Empire Plan essentially has a one size fits all benefit program, it's not reflective of the demographics of your

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particular group which, incidentally, one out of every three people in the Suffolk County plan is retired and that's -- that requires -- and that creates a unique demographic.

Suffolk County is unable to monitor or review its own experienced data for analysis and evaluation. The New York State System has not displayed an ability to manage and control its own cost, that was Mr. Bauccio's opinion, and has not provided timely rate assessments to participating agencies.

There's another item in here which was interesting, it said, "The retrospective premium arrangement," and this isn't highlighted but I just want to mention it anyway. "The retrospective premium arrangement, losses appear to be added to the following year's premiums." Well, that plan is characterized as being self -- it is being fully insured and it is except for the fact that if a loss occurs it's amortized over -- I think over a three year period following when that happens, so it's not exactly fully insured.

The advantages, if you look at the advantages for Suffolk County to have entered into its own system, large cash flow advantages is one of the items. The ones that we have marked here, I would be happy when we get to the questions answer any questions any of these. Control allows for administration and plan adjustments as needed, so it allowed the -- it allowed Suffolk County to customize the administration of this plan to meet the County's needs and to meet the needs of the employees that are covered by this program. The ability to review experience reports monthly, and that has happened. The



ability to analyze and evaluate up-to-date, current information, and there are monthly reports. And the -- these ability, these items, these non-financial items and there were financial items in here, but the non-financial items add significant value to the plan and that's something that certainly should not be able to be overlooked.

Okay. So this was the beginning point, this was the point, kind of the activity that generated the point of departure which is our next handout. The next item, and I'll just tell you what it is, is Resolution 1031 dated 1991, Authorizing Suffolk County to withdraw from the participation in the New York State Health Plan, otherwise known as the New York State Empire Plan. Let me mention something here that can be a point of confusion so that just in the use of terminology is the -- this is referred to as the Empire Plan, it also includes coverages provided by Empire BlueCross. So when we're referring to the Empire Plan, we are referring to the State plan; and sometimes they're both referred to, both Empire BlueCross and the Empire Plan can be referred to using the same words. You'll note the WHEREAS. The first one, "WHEREAS the County has determined that self-funding employee health benefits would be a viable and cost effective alternative to delivering benefits through the New York State Empire Plan." And "WHEREAS," we'll go to the third one, "The New York State Empire Plan has not been responsive to the needs of Suffolk County. The Suffolk County Bargaining Units, the Suffolk County employees due to their will unwillingness to share experienced data, provide timely response to questions and problems."

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One of the most important items, and I'll touch on this again, in setting up a large health insurance system is employee satisfaction, that's the single biggest benefit you can give people. You can have a terrific benefit program, torture them with the administration and they're going to be mad at you. So having the plan well managed, good customer satisfaction, good customer services, critically important.

The next WHEREAS, "As a participating agency in the New York Plan, Suffolk County does not have the ability to provide input into the New York State Empire Plan. Its operation, cost level of benefits or any other matter relating to the County or its employees." And "WHEREAS, the self-funded benefit program operated by Suffolk County for its employees will enable the County to develop, control and maintain a health benefit program responsive to the needs of this municipality." And that was approved on December 23rd, 1991.



Okay, the next item -- we're going to run you through some documents fairly quickly here. The next item you're going to have for your file is --

VICE-CHAIR CRECCA:

Actually, I was just going to say, if we could pick up the pace a little bit. A lot of what -- and I appreciate it, it's very -- the data you're presenting us, but we've been through all these numbers. We've had -- this is about the fifth or sixth day of hearings that we've had. We have been through all these numbers that you've presented to us so far, we're fairly familiar with them, if not fully familiar with them. So just --

MR. MCGINN:

Sure.

VICE-CHAIR CRECCA:

I understand you need to go to through the background, but if you can pick up the pace, that would be great.

MR. MCGINN:

I'd be happy to.

VICE-CHAIR CRECCA:

Thanks.

MR. MCGINN:

The next item is a Memorandum of Agreement and essentially what -- I think you all know what the Memorandum of Agreement is, it's simply an agreement that the nine labor unions that are involved in this thing sign-off on this program and the important thing is here that this document says that the Empire Plan is the minimum allowable coverage. The purpose in giving it to you is that this plan over time has operated at a benefit level above the Empire Plan, that was very deliberate. And it's become sequentially further away from the Empire Plan, both in terms of administration and in terms of its benefits.

The next document are the By-laws of the Medical Plan of Suffolk County and I would like you to look at page four. The only -- the purpose in handing this out, if you can just make a note on it, is

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that not only does it talk about the benefits not being less than, but it identifies appropriately modified or expanded, so it contemplated the expansion of the medical benefits. And if you'd also look at number six, it says it again in a different way, "Benefits will be



equal at all times, the minimum coverage allowable is the Empire level of benefits.

The next item, if we can hand that out now, is an October -- a set of minutes from the October 17th, 1997 meeting of the Suffolk County Labor Management Committee also referred to as the Joint Committee. And I would refer you to the Co-Chairman's Report on page three which is highlighted for your use. An important element in this one is two pieces, this page and on page seven. You've got the status of an extension MOA, Memorandum of Agreement between the unions and Suffolk County, "As requested, Mr. Gordon distributed draft extension of the Memorandum of Agreement extending the current health plan for three years." This is a meeting of October 17th, he distributed that noting that the draft be reviewed by the union presidents and for the union presidents to deliver any comment to the Co-Chairman regarding the same.

For the record, it says, "As requested, Mr. Gordon distributed a draft extension of the Memorandum of Agreement, MOA, extending the current health plan for three years. Mr. Gordon explained that this new draft nullifies the previous signed MOA. Mr. O'Leary requested that the draft be reviewed by the union presidents for the same -- and for the union presidents to deliver any comments to the co-chairman regarding the same."

If you would go on to page seven, I would like to point out that item number -- that would be 7D, Annual Report, "Mr. Singer distributed and reviewed the annual report. The report detailed the plan's financial performance and the benefit experience for the year ended December 31st, 1996. Compared these items to the prior year and provided projections for the years ending December 31st, 1997 and '98. And could we have this distributed, please? I want for -- this is something you have not seen so that you understand the financial projections and financial exhibits that are contained within an annual report. There's two pieces to this thing, there's a piece of actual and there's pieces of projections. And when you receive this chart, you will see that the -- in the annual report that we are referring to, what you have are the actual results for 1996 and the reason that this is done in 1997 is because the actual results for 1996 have a tail on them, it takes two or three or four months or five months for claims that were incurred in 1996 to show up and be paid.

So around October of 1997 we produced an annual report that contains what we think is the actual for 1996, it contains half a year of actual for 1997 and projects the rest of that year and then it contains a projection for 1998, and it's the '98 piece projection, for instance, that ties back to the numbers that you saw here, that's just where, for instance, 1998 number would have been in the first column of the first exhibit that we handed out. This is just to give you an idea of the construct of the annual report. So Mr. Singer distributed



the annual report and reviewed it in detail at this meeting of October 17th. Could we hand out the annual report, please.

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The next item is the annual report, and I'm sure you've seen this but we've got a copy for you that has highlighted sections in it. Alright, annual report for the year ending December 31st, 1996. If you would look at page two please, bottom of page two, the highlighted section, it's indicated "For your information, the following chart shows the cost of the plan's self-funded benefits compared to the estimated cost of the Empire Plan for each of the past six years." An important item here is 1995, '96 and the '97 projection, we will also make reference to '98 which is the last page here.

The actual for 1995 showed that the Empire Plan cost less than the self-funded Suffolk County Plan by a number of \$5.6 million. And that 1996 the Suffolk County Plan was \$81 million versus 72 million for the Empire Plan. The projection for 1997 -- knowing 1997 wasn't finished yet, we had half the data for 1997 -- was expected to also result in a relationship between the two numbers that showed that the Empire Plan would be less than the Suffolk County Plan and the trend of increasing costs in the self-funded plan continued. And on page -- the last page of this exhibit you will see that the projection for 1998 is included and the expectation was that the cost for 1998 would move up to around \$100 million.

So we've got an MOA distributed during the same meeting, discussing a -- including a three year continuation of the existing self-insured program. We have Larry Singer reviewing an annual report that shows you this relationship between the Empire Plan and the Suffolk County Plan. Now we have the minutes of the next meeting which was September 21st -- I'm sorry, November 21st. The page that we would like to make reference to --

CHAIRMAN GULDI:

You need the mike back into your face so the stenographer can get it. And I was wondering if, given the pace that we're keeping here, if we can get the Republican County Chairman to make us a pot of coffee.

LEG. CRECCA:

Democrats have us working too long and hard.

MR. MCGINN:

The page that we would like to refer to in this exhibit is page three where you'll note that under the co-chairman's report on page three that the status of the extension MOA that Mr. O'Leary announced, that



the extension Memorandum of Agreement which extends the current health plan for three years had been fully executed. So the combination of events that you have here is that the -- there was a discussion regarding the MOA at the previous meeting, there was a review of the relationship between the Suffolk County Health Plan historical cost and projected cost to the Empire Plan indicating that the Suffolk County Plan had cost more and would continue to cost more, and then you have this followed up with an executed MOA extending the self-insured plan for another three years.

The next item is just simply the Memorandum of Agreement that reflects that action signed by all nine union representatives, union Presidents as well as Mr. Green for the County. And it extends the contract, extends the self-insured arrangement for the years 1998, 1999 and the

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year 2000. The annual report that we distributed was the -- was the last annual report that included the comparison between the Empire Plan cost and the Suffolk County cost, and it was deemed irrelevant because of differences in benefit, service, management control and the financial control between the County Health Plan and the Empire Plan. We believe the documents in the possession of the County will show that key County personnel thought that it should no longer be done. Accordingly, the cost comparison wasn't even submitted to the Joint Committee in 1998 and thereafter was submitted only twice in 1999 and the year 2000 but by way of a separate table and never again in the annual report.

Our conclusion on this point is that plainly by the time The Segal Company became the actuarial consultant to the County, the cost comparison between the County Health Plan and the Empire Plan was irrelevant, it was not included in the contract with Segal and it certainly did not deter the Joint Committee from extending the Memorandum of Agreement for the plan for another three years which was 1998, 1999 and the year 2000.

You've heard a lot about the plans are different and you're going to see we have another -- we have -- our last document is simply just an except from Legislative testimony that will further point that out, but I want to address the issue of the plans being different. This is probably -- this is something you may or may not have heard. So what does different -- what does different mean? And what it means is that -- and I don't think there's any contest over this -- is that the Suffolk County Plan has better benefits than the Empire Plan that, was deliberate, it was intended as shown by the documents. What does better mean? There are structural differences in the plan, structural



differences meaning copay difference. There's a historical track record of this plan having deferred changes that the Empire Plan made let's say in increasing a copay which is a benefit reduction, the Suffolk County Plan might delay doing the same thing or phase it in over time. There are also very small kinds of structural changes that were made outside of anything that Empire did.

There are provider access differences. When we talk about better, if you could see the management reports for the Suffolk County Plan that indicate that over 90% of the people who see a physician in Suffolk County go to a contracted provider, that's an amazing number. So over this period of time, you've seen your -- the provider you've contracted with is Vytra has doubled the number -- over a five year period they doubled the number of physician providers in Suffolk County in response to -- specifically in response to the Suffolk County group.

Administrative services difference. I could spend the rest of the afternoon talking about differences between Suffolk County and the kinds of customer specific modifications that you could make. One of them, for instance, is if you've got a problem you can call in and say, "Well, I've got this kind of a medical problem," and if the person you're talking to doesn't feel comfortable with it they just transfer it and you're talking to a clinician, and that's a significant benefit. You've got medical management systems that are tailored to the Suffolk County demographics; Suffolk County has a

higher incidence of breast cancer, that sort of stuff. There's a significant list of medical management systems that benefit Suffolk County and they benefit an employee. Unnecessary medical care not only costs Suffolk County money, it's dangerous; medical care is inherently dangerous if you don't need it and have it, you expose somebody to an unnecessary danger. And you've got that sort of stuff, you've got breast cancer, prostate, adult onset diabetes, pediatric asthma, all kinds of things that have been put in here just in response to -- let me mention one other thing.

The level of detail that the County gets from Vytra regarding this medical plan is significant. You can tell by types of diagnosis, by types of service, by length of stay, by patient acuity, where things are occurring, and that allows you and allows the people who are administering this plan to modify it to meet the specific needs of these people. And even though you have 18,000 people, it has a specific characteristic and complexion in the terms of the way they use health care. And modifying your plan and modifying your



management systems to accommodate that is better for them and it's better for you.

The advantages cited in Mr. Bauccio's memo which was the third item that we handed out, this 1988 memorandum, the -- if I'm not mistaken, every one of those advantages has been accomplished that were shown to be advantages are in place. The -- so what's the scale of these differences? So we have talked about two different things here, there's two different kinds of benefit differences, one being the structural stuff so copays are a little less here than they are at Empire, and then you've got all of these other management, easy access to providers, good customer support and that sort of thing; what's the scale of that?

If you look at -- and you've seen the Ernst and Young Report, correct? I think everybody has seen it. If you take 1997 through the year 2002, take those numbers and you say, "Okay, how far off of Empire was the Suffolk County Plan, how far away from it or how far away was it from the Empire Plan in terms of cost? Roll those years up and you're going to be looking at a number, if you take -- we have a number, they have a number, if you take the average of the two, just for discussion purposes, you're going to be looking at a number of about 5%, give or take a little bit, but let's just say it's 5%. So then the next question you ask, okay, so let's just say that during that period, during that five year period of time that the Suffolk County Plan was 5% more expensive, was 5% more expensive, well, why would that be? Well, first of all, there were benefit increases of a structural nature that were deliberate; oh, okay. Well, if you cost those out, and my guess is you're going to have somebody do it -- we're in the process of doing it, we've already done part of it -- is that that number is going to fall in the range of two to 4%; that's not a great big number.

The Ernst & Young Report made two references to the comparison of benefits between them Suffolk County and Empire; one of them said that they were fairly similar, the second one said that there's no major differences, those are exact quotes, and that's true, they're 95% the same let's say. So let's say that the benefit cost, that the

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structural benefit cost just for this period of time turn out to be 3%, we'll take the mid point, that leaves you with 2% difference. Because you could actually cut the benefits in Suffolk County to get the 3%, so let's just say that now we're down to 2%. So what have you got for 2%? My guess is that if you ask a hundred people that work for this County what the three top benefits of working for Suffolk



County is, one of them is going to be their health care.

And if you look at the minutes, for those of you who are reviewing some of these documents, and you notice the absence of discussion regarding problems on the administration and participants being unhappy, as it was indicated in Mr. Bauccio's memoranda of 1988, you're going to find that through this extensive collection of administration enhancements that you've created a very high satisfaction level. And I would contend that high satisfaction in this plan is worth more than 5% by itself and I think you'll find that the professionals that you hired to address this same issue will tell you the same thing. So you've got in this period for the 5% spread, it leaves 2% for high satisfaction, financial accountability, design control, all of the things that you wanted when you started this.

Something else worth noting. The difference between the Suffolk County Plan and the Empire Plan for 19 -- excuse me, for the year 2001, it was 3%. So what's happening is this number is coming down like this. Our expectation is for the year 2002, if you've got that number, it's going to be zero. So these things tend to run trends. The trend right now is away from even a 5% spread which is easily justified.

So the point here, the point I would like to make is that the Joint Committee knew that the EMHP Plan, the Suffolk County Health Plan, was different and that it was not the same as the Empire Plan and that it delivered a higher value and that the cost comparison was artificial to the point of being misleading.

And with that, we'd like to give you our last exhibit; you've got it, okay. The last item is excerpts from an October 30th Legislative hearing which was the predecessor committee to this one, Financial Services Committee. And this just simply is going to be a series of statements, Mr. Schneider, he was referring, at least in this first one, to the Empire Plan. He says, "This is a number that had nothing to do with our cost," which is correct, "and nothing to do with our expenses," which is also correct. On page two Mr. Schneider goes on to say, "We really didn't care about this comparison with the Empire Plan because it meant nothing to us." And then Mr. Tempera who is the Co-chair from the County Department of Labor Relations, he said, "Our plan is different than the Empire Plan." Mr. Bauccio said, "We've got a totally different plan now," and went on to say, "We're so different from Empire now that you really can't compare us to them."

In closing, I would just like to make a couple of statements. Number one -- reiterate a couple of things. Number one, there were no losses. Number two, the funding shortfall had nothing to do with the Empire comparison era; the funding shortfall had nothing to do with the Empire comparison era and that the funding shortfall and the Empire comparison era are completely unrelated. The joint -- next



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item is the Joint Committee considered the Empire Plan irrelevant as evidenced by the 1998 MOA extension where they agreed to extend the plan for 1998, '99 and 2000, another three years. The difference between the Empire -- between the cost of the Empire Plan and the County Health Plan was more than justified by a combination of benefit enhancements, administrative and management advantages, not the least of which is extensive care management programs. And finally, the committee, the Joint Committee achieved all of the original advantages described in Mr. Bauccio's 1988 memorandum and should be commended for the creation of a system that delivers high satisfaction to County employees and provides good value to both the County and its employees. Thank you.

CHAIRMAN GULDI:

I think that I'm going to let Legislator Crecca ask his questions so we don't have an explosion up here. Legislator Crecca?

LEG. CRECCA:

Good morning. I would have to say that almost everything that you've said I agree with, I just think we're missing one major point here. I agree with you that there were no losses, that any shortfalls in funding were not a result of, you know, Segal Companies. But you're trying to down play or at least the impression is that we're down playing the comparison numbers to Empire. Nowhere during the presentation was there ever addressed -- there was an acknowledgment -- first of all, there's an acknowledgment from Segal that the comparison numbers that were provided were wrong; when I say that, in other words, the Empire numbers were wrong, correct?

MR. MCGINN:

Yeah, only a year later starting in 1988 I believe.

LEG. CRECCA:

Ninety-eight you mean.

MR. MCGINN:

Pardon me?

LEG. CRECCA:

I think you mean ninety --

MR. MCGINN:

1988 -- I'm sorry, 1998, excuse me.



LEG. CRECCA:

Now and you -- I know you've tried to make the point that despite those numbers being incorrect, that it was -- I think you said the cost comparison became unimportant according to Suffolk County officials; I guess you're relying on some of the statements that were made during the hearings?

MR. MCGINN:

That's correct.

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LEG. CRECCA:

Now, when you say that, are you referring to the testimony that you referred to at the last exhibit, that it became unimportant? In other words, what are you basing that statement that it became unimportant to officials?

MR. MCGINN:

It was actually based upon a collection of actions and statements. The actions taken at the board meeting in 1997 indicated that in the face of two years of an adverse relationship between the two and the projection of a third, that they move forward with the execution of an MOA continuing that -- continuing the existing funding arrangement and continuing the existing plan for another three years.

LEG. CRECCA:

Didn't that MOA, though, and subsequent MOA involve it right in the language a substantive part of that agreement was based on savings that would be acquired as a result in comparison to the Empire Plan?

MR. MCGINN:

No.

LEG. CRECCA:

Subsequently, when they did the MOA, I'm talking about several years later, they talked -- they again used the Empire numbers in negotiating with the unions and coming up with a number. The unions were relying on those Empire numbers and saying that there would be a cost savings to the County in the subsequent agreement, correct?

MR. MCGINN:

That is correct. It's also important to note that we were not consulted on the creation of the MOA. Mr. Singer's first recollection



of its existence was about six months after it was executed.

LEG. CRECCA:

Okay, but it was never -- The Segal Company was had never hired in order to draw up agreements or to negotiate with the unions and the County, it was -- I think you described earlier, your purpose was to provide information and actuarial services.

MR. MCGINN:

That's correct.

LEG. CRECCA:

Okay, and that was -- if there was any duty on your part and any reliance on our part, it was in that function in your professional function.

MR. MCGINN:

That is correct.

LEG. CRECCA:

Okay. The -- and --

MR. MCGINN:

May I point out something?

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LEG. CRECCA:

Sure.

MR. MCGINN:

The -- knowing that there are differences between the two plans and creating an MOA that ran off of a difference between the two should have accommodated some calculations about the differences, the structural differences between the two plans.

LEG. CRECCA:

Okay. First of all, the fact of the matter is I think you said they're about 95% the same, there are some differences. Those structural differences were something that the board came up with, whether they were additional benefits or they changed some of the parts of the plan, those were things that were decided by the board as part of a management decision, correct?

MR. MCGINN:

Yes.



LEG. CRECCA:

Okay. And certainly being self-insured has its advantages and the ability to do that, to make structural changes to it.

MR. McGINN:

That's correct.

LEG. CRECCA:

But in any business, you're still going to use other comparisons to other companies and what their costs are; I'm not saying whether or not benefits are worth it or not. And those numbers were still being provided on an annual basis to this management board, correct, by Segal, the comparison numbers?

MR. McGINN:

No, they were not provided for a one or two year period of time.

LEG. CRECCA:

At all? I think that's incorrect. I think they weren't provided in the annual report.

MR. McGINN:

They were not provided -- our -- my recollection is that in 1998, I do not believe we provided those numbers.

LEG. CRECCA:

Was that part of your contract; wasn't that part of the initial contract to provide that information to the County?

MR. McGINN:

No.

LEG. CRECCA:

And did you -- during that year, 1998, did The Segal Company actually request the enrollment numbers during that time for the purpose of preparing the cost comparisons?

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MR. McGINN:

I don't recall.

LEG. CRECCA:

In fact, you had the data, the enrollment data in 1998 and all of the years that you were under contract with the County, you did have the enrollment data in order to prepare those comparisons, did you not?



MR. MCGINN:

We had enrollment data for those years. There's -- as you know, there is some contest over that data.

LEG. CRECCA:

Well, then I'll address that then. When you say there's some contest over that data, in October of 2002, Segal issued a report redoing all of -- you know, redoing the comparison numbers for the subsequent years and when they did that they did that based on the same data they had prior from their own records, I read those memos. So when you say that, I mean, you had redone it based on the same exact data that your own reports had in them; is that correct?

MR. MCGINN:

Yes.

LEG. CRECCA:

Yes, okay. Would it be a fair and accurate statement then to say that the prior comparisons that were then corrected in the October, 2002, report, the prior corrections were a miscalculation by The Segal firm?

MR. MCGINN:

Can I ask you which comparisons you're referring to?

LEG. CRECCA:

The comparisons between the Empire costs and the County self-insurance plan in the October, 2002 report where they amended the numbers, I believe it was for '98, '99, 2000 and 2001 for those years, what the Empire cost plans would have been for the County. I don't have the memo in front of me, I'll have someone pull it out though.

CHAIRMAN GULDI:

It's here somewhere.

MR. MCGINN:

Mr. Crecca, that may be a better question -- I -- without that in front of me --

LEG. CRECCA:

Well, you know what? Really the point is simple, and if you can answer the question I'll try to keep it simple. The company acknowledged -- did the company or did the company not acknowledge that in October of 2002 that they had provided incorrect comparison numbers between the County's plan and the Empire Plan for the years '98 through 2001?

MR. MCGINN:

I believe so.



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LEG. CRECCA:

Okay. Were you at any time -- during that time period, were you ever instructed by any County official or by anyone involved in EMHP to provide incorrect numbers?

MR. McGINN:

No. That -- actually, I recall your question from the October Legislative hearing and it had two pieces in it. One piece was that I believe you said that you had heard but you were not sure and you could have been mistaken that one of our employees had indicated that something like that had happened.

LEG. CRECCA:

Correct.

MR. McGINN:

The answer to that part of it is also no. We have checked, nobody said anything like that nor were we ever asked by Audit and Control I believe is the --

LEG. CRECCA:

Yes.

MR. McGINN:

No; it's a no and a no.

LEG. CRECCA:

So would it be a fair summary of Segal company's position that any errors that occurred in comparison numbers between the Empire Plan costs and our actual costs, comparing those two, was strictly as a result of accounting errors?

MR. McGINN:

Yes.

LEG. CRECCA:

One moment.

CHAIRMAN GULDI:

Counsel, we just had a little colloquy here. It's my understanding that your other witnesses here are available to answer questions but you have no further presentations, form of presentations that you'd like to make to the committee other than to respond to our questions, or do the other witnesses have an opening statement or statements that they want to put on the record?



MR. SHEA:

No other witnesses have opening statements.

CHAIRMAN GULDI:

You need to use the mike for the stenographer.

MR. SHEA:

No other witnesses have opening statements.

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CHAIRMAN GULDI:

But they are available to answer questions of committee members.

MR. SHEA:

They are available. I don't know whether Mr. McGinn has another point to make or not.

CHAIRMAN GULDI:

Do you want to --

MR. MCGINN:

As an extension of Mr. Crecca's question regarding accounting errors, there is an issue, an open issue right now regarding our having received something different than what we had asked for. There was a misunderstanding, either -- maybe on both sides. But we asked for certain information, we got -- in three categories, we got three categories of data back but it was not what we had asked for.

LEG. CRECCA:

That was exactly what my next set of questions was going to be, is what exactly caused the error, in your opinion, in the accounting error? In other words, what information did you ask for, what information did you receive, where did the mistake occur?

MR. MCGINN:

We asked for a distribution of information that had three categories for the Empire Mediprime retiree categories, you've seen all of this stuff, there's three categories of retirees. What we received back was three categories of data but it was for individuals for whom the County made part B Medicare premium payments, it was not what we had asked for.

LEG. CRECCA:

Now, did you -- I mean, I would assume that the people who were doing



these numbers, though, had to know what they were looking at with those numbers, correct? I mean, you just testified earlier that what your firm does -- and it's a large firm, The Segal Company -- is pension benefits, health, medical benefits, you know, employee medical benefits.

MR. MCGINN:

Yes.

LEG. CRECCA:

So certainly, I don't think you're trying to propose that you didn't know the numbers you were looking at; is that --

MR. MCGINN:

What I'm telling you is that there was a misunderstanding regarding the -- what we had received by the County versus what we had asked for and we went ahead and used that information.

LEG. CRECCA:

Right, but when you add those up, the information of the number of employees in each of the different categories, it actually exceeded the total number of employees by a great number. So general

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accounting principles would be that the bottom line didn't match, the total number of employees that you had didn't match the total number of employees that you were projecting in the Empire Plan, correct?

MR. MCGINN:

Yes. The -- there were two items here. One is that we asked for apples and got oranges and we used the oranges, that's obvious. The second thing is that the numbers didn't match anything that anybody else had seen before and there was an assumption made that this was a group of people that had not previously been covered, that would be required to be covered under the Empire Plan and so the Empire comparison had those numbers loaded into them. So you wound up with -- and this is memorialized in lots of places -- you wound up with a population included in the Empire calculation that was greater than the population that was included in the Suffolk County calculation.

LEG. CRECCA:

And that didn't raise a red flag to your actuaries who were preparing the information?

MR. MCGINN:

The problem was that the number was -- is that the way that the number



is held, it's held in member months. And what happens when you multiply a group of 2,000 people by eight member months and you go through a bunch of categories, you're looking at very large numbers and it's not obvious. And I'd like to point out --

LEG. CRECCA:

I'm sorry, go head.

MR. MCGINN:

I'd like to point out that on I believe it was February 1st, 2002, the -- let's see.

LEG. CRECCA:

The acknowledgment --

MR. MCGINN:

There was a meeting -- excuse me. There was a meeting between our staff members and County representatives including one that has -- that's a Certified Public Accountant. The purpose of the meeting was to review the computations of the Empire costs, it lasted an hour-and-a-half and nobody coming away from that had deduced from that information that there was an overcount.

LEG. CRECCA:

Well, apparently one of our employees were able to figure out that there was a double counting of the numbers having dug through and not even having all the information you had.

MR. MCGINN:

No, they did it, they did it when we furnished them with a document that changed the reporting format and didn't use member months and that was on September 2nd we transmitted an exhibit which got away from member months calculations, it had the individual -- it had the individual categories and the people at the County who looked at it

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immediately recognized that they had a higher body count there than the County actually had and that then brought this thing to the surface. We supplied the information to the County in a different format that allowed that to be identified.

LEG. CRECCA:

I'm going to wrap, I have a couple of more questions to wrap up. There was some talk about Segal losing records from 1997 to 2001, have you found those records yet?



MR. MCGINN:

Yes.

LEG. CRECCA:

Okay. So -- and do you know where they were lost or how they were lost?

MR. SHEA:

Mr. Crecca, the company has off-site storage and there's a massive facility in New Jersey and it took -- it just took a while to get to retrieve from those off-site archives the materials, but they have all been retrieved.

LEG. CRECCA:

Okay. So the information previous provided to the County that those documents had been lost was incorrect.

MR. MCGINN:

They were at the time.

LEG. CRECCA:

Okay; I guess that's a fair enough statement. They just were not able to be found I guess. I just have to make two more points that I think are important because I think your testimony tries to set forth and completely minimize the importance to both our union Chiefs, the EMHP Board, everyone who sat on that board, to minimize the importance of the cost comparisons to the Empire Plan. But in 2001, in the MOA that was prepared at that point, it specifically -- that whole MOA is based on your -- Segal's numbers and the comparison numbers between the Empire Plan and the self-insurance plan, the memoranda specifically makes reference to that being the basis of the agreement.

So to sit here today and for you to tell us that those numbers were not important to the management of our plan and the decisions that were made for the plan is insulting. And I think that I appreciate you coming forward, I appreciate you being candid in answering the questions, but I think some of your conclusions are off base. I think that the management team clearly relied heavily on comparison numbers with the Empire Plan and I think that is primarily the reason that we're here today.

As far as the projections of the cost and the funding shortfalls, those are not questions -- those are questions that, you know, we as a government maybe have to look at and reexamine. But they're not -- they never were the focus of this initial hearing. The fact of the matter remains is that it costs the County a lot more money to be on a



self-insurance plan than it would have if we were on the Empire Plan. And that's not to say we wouldn't have made the decision to spend more money and stay self-insured, but certainly decisions that were made by the EMHP Board, and I think that's one of the things that this hearing has clearly set forth, were made in reliance on the cost that it would have cost us to be on the Empire Plan. I can't say for sure that whether those enhancements, that two to 4% of course would haven't been made or wouldn't have been made and I certainly am not going to go back and try to question whether they would have or wouldn't have. But certainly if I was on a board and I knew I was saving money over the State plan, I would be a little more free to start putting plan enhancements in place, I would be a little more flexible in how I administer my plan knowing that I was saving money over the other plan.

So I think -- again, I think that in answering the questions, I would ask that you not draw conclusions, provide facts to us but don't draw conclusions about the importance to the County of those Empire numbers or not. Again, I thank you for coming forward today. I'm sure other committee members have questions, I've taken up probably more time than they want me to.

CHAIRMAN GULDI:

I think -- I want to point out that you've managed to get most of the committee members to leave.

LEG. CRECCA:

I know.

CHAIRMAN GULDI:

Legislator Bishop, do you have any questions?

LEG. BISHOP:

No.

CHAIRMAN GULDI:

And you have exhausted Legislator Bishop's questions. And I can see also, Mr. Crecca, that when the committee begins to write its report and make its findings on this, that you and I together will be able to come up with the report and the dissenting opinion one way or the other.

I had a couple of questions. You had some questions for the other -- why don't you have the other parties come up and join us at the horseshoe so that we can direct individual questions to them. There are sufficient number of chairs, I believe, and we can pass the microphones back and forth. I did actually have one question for you, Mr. McGinn, that I want you to address and that is in your early



remarks you talked about -- and in fact, one of your exhibits specifically addresses the cost projection that is, if you will, the differential between the cost projection and the funding provided.

MR. McGINN:

Yes.

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CHAIRMAN GULDI:

And the point where I think Mr. Crecca and I might depart is that I think that the Employee Medical Health Plan has been demonstrated by virtue of the work that's gone into it to be a vastly superior health plan to Empire Plan in many, many categories and that the cost differences and the administrative costs folded into the plan that aren't absorbed by Empire more than outweigh the -- those benefits more than outweigh the cost differences. But I'm wondering, I'm looking at -- and I've been troubled throughout these hearings by the discussion of -- cost comparisons absent the discussion of plan rate and budgeting. Because what really triggered this whole hearing and the whole problem with EMHP was an underbudgeting, and the underbudgeting was prepared on a plan rate and plan rate for the years that the budget was prepared on, nobody has ever questioned the accuracy of.

So I'm looking at these early years of budgeting and I'm trying to figure out why you would under budget, you know -- and I'm asking you to speculate or express an opinion, if you have one, as to what purpose would be furthered by under budgeting from your plan rate.

LEG. CRECCA:

(Inaudible).

CHAIRMAN GULDI:

I understand that. I understand -- Mr. Crecca points out that you don't do the budget, I know you don't do the budget. I'm wondering why on earth that would be done, if you have an opinion. I'm sure there are some other people here who will get an opportunity to answer that question; in fact, Mr. Tempera I'm sure will volunteer later to come up and explain it to us.

LEG. CRECCA:

Jeff, told me he's never volunteering to come up to answer questions ever again, so.



CHAIRMAN GULDI:

Well, I promise we'll always give him the opportunity. Go ahead.

MR. MCGINN:

One speculation might be that if you had -- if the incurred but unreported claim reserve which would have been money held in Account 85, if you had money in that account and you wanted to remove it in a particular fiscal period, you could under budget it and pull that account down, and I'm reasonably sure that's what occurred. This plan has a -- as you probably know, has an incurred but unreported claim liability in the order of \$20 million.

CHAIRMAN GULDI:

Right, which is an inherent aspect of self-insurance; it's your incurred but unreported claims for the upcoming months.

MR. MCGINN:

Yes and it's actually an advantage if you were with the Empire Plan to have that money in their account, you have it for use in operating capital or wherever it is, it's not in the Empire Plan and that was

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one of the advantages that Mr. Bauccio indicated in his 1988 memorandum.

CHAIRMAN GULDI:

That's clear. All right, that was -- but -- but there were -- I don't see any nefarious scheme that might have been furthered by under budgeting. I mean, I can't imagine one and I'm asking you if you could imagine one, to be rather explicit with my question.

MR. MCGINN:

No.

CHAIRMAN GULDI:

All right. You had some questions for the individuals, Mr. Crecca, because I did too. But why don't you just start.

LEG. CRECCA:

No, you go.

CHAIRMAN GULDI:

Okay, I have the book. Did Segal & Company's actuarial services exclude -- did the scope of the service work provided include the drug plan?



MR. SINGER:

I'm Larry singer, I'm the benefits consultant. And the answer is yes, we reviewed the drug plan as well.

CHAIRMAN GULDI:

And your analysis of that is consolidated in the annual reports or was it subject to a separate report?

MR. SINGER:

Well, the annual report is, as Mr. McGinn said, a chronicle of expense history and projections and yes, we included the drug history in expense projections. In some early reports there were also some utilization statistics.

CHAIRMAN GULDI:

All right. And one of the concerns I had is with the recent change on maintenance pharmacies that we made -- has utilization statistics where -- you did this through 2001, right? Did you review the impact of utilization statistics on that management change or was that after -- was that within the scope of Segal & Company?

MR. SINGER:

Sure. Separate and apart from the annual report, a regular part of our relationship with the committee was to look at emerging data and a lot of effort was spent on the drug plan including the maintenance program.

CHAIRMAN GULDI:

And the follow-up after the implementation of the changes.

MR. SINGER:

That's right.

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CHAIRMAN GULDI:

Okay. I have to find the page. In 1992 when Segal was engaged as the consultant at that point for consulting services, what was Segal & Company's knowledge, experience and background with the Empire Plan up to that point in time?

MR. SINGER:

Well, we serve many clients in New York State in the public sector and have some clients with whom we provide services other than basic health consulting services who participate in the Empire Plan. We are very familiar with the vendors that the Empire Plan uses, our private sector and public sector clients independently use them. We provided



consulting services to some of the Statewide unions that negotiate on the Empire Plan, so I would say that we are generally familiar with the Empire Plan.

CHAIRMAN GULDI:

Okay. Did you, Mr. Singer, did anyone ever tell you to stop giving information to Phil Bauccio with respect to the plan?

MR. SINGER:

No.

CHAIRMAN GULDI:

Never happened?

MR. SINGER:

Nope.

CHAIRMAN GULDI:

Not even in 2000-2001?

MR. SINGER:

No. We relied on the Risk Management Office, both as a source of data and as a review of our work product and that was the relationship we had over the whole tenure of the relationship.

CHAIRMAN GULDI:

And at no point did anyone ever suggest to you that you should be going elsewhere for data or information and that you should not be speaking to Mr. Bauccio at Risk Management?

MR. SINGER:

That's right. Now, over the years the County has had changes with regard to where information is stored, so certainly we were apprised of those changes. But no, a specific answer to your question is no.

CHAIRMAN GULDI:

Okay. In 1990 -- I believe it was 1993 at the time that the plan was being rebid, is it true that you at the 1993 rebid suggested that BPA was a good company that should be considered as a finalist for the County of Suffolk's work?

MR. SINGER:

Well, in no uncertain terms did we make that representation about BPA ever.



CHAIRMAN GULDI:

You did not make that representation that they were a good firm that should be considered?

MR. SINGER:

That's correct.

CHAIRMAN GULDI:

Okay.

MR. SINGER:

I believe they were included in a RFP search in a subsequent period. I don't remember -- there were two rebids, there was a 1992 and then there was one subsequent, I don't remember if they were included in the mix. But the procurement process in Suffolk County was such that bidders were generally invited and they might have been included.

CHAIRMAN GULDI:

Okay. But did you have any relationship with them at any time?

MR. SINGER:

I recognize the firm name but other than that, no. And we have other clients that might have used them, I don't recall.

CHAIRMAN GULDI:

Okay. Mr. Crecca?

LEG. CRECCA:

My questions are really, Larry, either for you or for Ms. Carlisi because I don't know who received what when. Who was the person or persons that dealt with the County regarding the Empire cost benefit numbers, who was receiving those numbers from The Segal Company?

MR. SINGER:

That would be our health benefit analyst groups.

MR. SHEA:

Who was receiving them? What was your question?

LEG. CRECCA:

Yeah, I'll clarify the question because I probably wasn't very clear on it. Someone dealt on a daily basis or a weekly basis or a monthly basis with Audit and Control and then subsequently the Department of Personnel.

MR. SINGER:

Right.

LEG. CRECCA:

Who from your company was doing that day-to-day dealing; yourself was



one of those people, correct?

MR. SINGER:

Well, with regard to the data it would be the people on your left, my right.

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CHAIRMAN GULDI:

Put their names on the record, please. And then I think you're going to have to pass them the microphone.

MR. SINGER:

I will do that.

MR. GUGLIELMO:

I'm frank Guglielmo.

MS. CARLISI:

I'm Dee Carlisi.

LEG. CRECCA:

And I'm just laughing because they're shifting you down. I'm going to just -- to mess you up, I'm going to ask Mr. McGinty (sic) a question, just to make -- I'm just kidding.

CHAIRMAN GULDI:

His name is McGinn, I wrote it down.

LEG. CRECCA:

Oh, McGinn? I'm sorry, I apologize. We thought George was going to screw up the name and I did. Who did you -- and I don't know who to direct my questions to, again, so if the appropriate person would just take the microphone. But who -- how often did you speak with a County representative regarding the receipt of enrollment numbers?

MR. SHEA:

Mr. Crecca?

LEG. CRECCA:

Yes?

MR. SHEA:

If you could be specific as to the time period, you know, what years you're talking about and --



LEG. CRECCA:

It's difficult without addressing it to one person. I don't know, were both people here during the entire contract period? No, okay. Why don't we give them the mikes instead. Why don't you let me know at what period of time did you work on an account involving Suffolk County, first for -- if I could use your first names because -- it's Guglielmo?

MR. GUGLIELMO:

Right.

LEG. CRECCA:

Okay, that's easy. Mr. Guglielmo. At what period of time were you employed by The Segal Company that you were somehow working or involved with the contract with Suffolk County EMHP?

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MR. GUGLIELMO:

I worked on the EMHP account from approximately '96 through I guess around 2000.

LEG. CRECCA:

Okay. During that time period, how frequently were you in contact with either a Suffolk County employee or a member of the Suffolk County EMHP Board?

MR. GUGLIELMO:

Well, it usually took place during one point in the year when we were getting the data to put together our annual report.

LEG. CRECCA:

And that's pretty much --

MR. GUGLIELMO:

I didn't contact them year round but I dealt with Phil Bauccio mostly.

LEG. CRECCA:

Okay. And that have been through Audit and Control; your dealings would have been, in other words, based on those benefit numbers and you had no dealings with the management board of EMHP, correct?

MR. GUGLIELMO:

No, I dealt with Risk Management.



LEG. CRECCA:

And was Phil Bauccio the person that you always spoke to or most often spoke to?

MR. GUGLIELMO:

Most often.

LEG. CRECCA:

Was there anyone else that you recall speaking to to either receive those numbers or any other information?

MR. GUGLIELMO:

Shirley DeMatteo and Debbie Heitelband.

LEG. CRECCA:

And were they responsive to the information you requested?

MR. GUGLIELMO:

Yes, usually.

LEG. CRECCA:

And during that time -- this mike is gong. During that time period, was there -- did you ever question any of the numbers you were receiving of them and did they provide additional data upon those inquiries?

MR. GUGLIELMO:

At that time we had no idea there was anything wrong with the numbers.

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LEG. CRECCA:

If you could just pass the mike over to Ms. Carlisi. Ms. Carlisi, for what time period did you work on the Suffolk County account?

MS. CARLISI:

2000 through 2002.

LEG. CRECCA:

Okay. And prior to 2000, you had had no dealings with the Suffolk County account through The Segal Company, is that correct?

MS. CARLISI:

Correct, I began working with Segal in June of 1999.



LEG. CRECCA:

And who did you deal with; did you deal primarily with Audit and Control employees at that point?

MS. CARLISI:

Right, I dealt in order to obtain any enrollment data with Oscar Ortiz, Shirley DeMatteo, Margaret DeMarzo.

LEG. CRECCA:

And did you -- would it be a fair statement that the information that was received during that time period regarding the enrolled employees was accurate and was -- they had satisfactorily given you the information that you requested?

MS. CARLISI:

Yes.

LEG. CRECCA:

Was there a reason -- and this question can go to either one of you -- that the employees were double counted? You know what, I'm going to withdraw that question. I really -- I don't have any further questions.

CHAIRMAN GULDI:

Yeah, I have a couple. Okay? To both of you since I've addressed the question to Mr. Singer already. Did anybody at any time direct you to not speak to or give information to Phil Bauccio or get information from him?

MS. CARLISI:

No.

MR. GUGLIELMO:

No, that never happened.

CHAIRMAN GULDI:

Never happened at all. Okay. Go ahead.

LEG. CRECCA:

Did anybody ever request -- and I'll ask the question because I know it was sort of answered before, but I want to just make it clear for the record. Were you ever asked by any Suffolk County employee or any



MR. GUGLIELMO:

No, sir.

MS. CARLISI:

No.

LEG. CRECCA:

And did any -- was there ever any request to make the Empire numbers look higher than they were or anything of that nature from anybody?

MR. GUGLIELMO:

Never.

MS. CARLISI:

No.

LEG. CRECCA:

And any double counting of employees in figuring out the Empire costs was merely an accounting error, if I can state it that way?

MR. GUGLIELMO:

Strictly an accounting error.

LEG. CRECCA:

I have no further questions.

CHAIRMAN GULDI:

The -- just a fundamental question and that is the -- I know that we -- actually, I have a draft -- let me put that out and show it to you. I have a draft of a 19 -- annual report for year ending '97, and I can't read the data on it because there are post-its over it. But I want to show you the post-its and the draft report and see if you've ever seen it. I apologize for giving you this, my only copy. Do you have more of these? This is the one we've used before.

MR. BRONFMAN:

No, but we can make some.

CHAIRMAN GULDI:

Actually, why don't I -- actually, why don't you take this and run five or six quick copies of it and I'll hold that question until I get back to it.

The fundamental question is why did you do the comparisons? I mean, when did you begin to do the comparisons, why did you continue to do the comparisons? Mr. McGinn, you pointed out that you stopped including the comparisons in the annual reports after the one you circulated for 1997, they never appeared in the annual report. Why were they done after that at all?



MR. SINGER:

Yeah, I suppose that's best addressed of me and we were asked to do

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it. I don't know if Mercer, our predecessor company, was asked to do it.

CHAIRMAN GULDI:

You were asked by whom?

MR. SINGER:

I don't recall. The -- our point of contact was typically Joint Labor Management Committee and other county employees who supported that committee. So we typically would have gotten the instructions at one of the monthly meetings.

(SUBSTITUTION OF STENOGRAPHER - ANA GRANDE)

CHAIRMAN GULDI:

But Mercer did the numbers before the comparisons before you and you did it because you were asked to continue it, you didn't take it upon yourselves to continue it, but it was on request, is that clear?

MR. SINGER:

Yes.

CHAIRMAN GULDI:

You specifically remember being asked to do it?

MR. SINGER:

It's not something we would have unilaterally decided to do, so I don't remember specifically being asked to do it.

CHAIRMAN GULDI:

Okay.

MR. SINGER:

But as I said --

CHAIRMAN GULDI:

You don't have a specific recollection of being asked to do it?

MR. SINGER:

That's right.



CHAIRMAN GULDI:

All right. While they're working on that report, and I don't know who wants to take, Mr. McGinn, I think you probably would address this for the most part, with respect to the -- let me ask the question in the globalist, broadest sense, because it's the simple question of, all right, what went wrong here? Why are the numbers -- why are we here today? But what went wrong in your opinion with respect to this, the whole -- the whole subject of these series of Committee hearings and, you know, the questions that will follow from what went wrong, when, how, who, what, why?

LEG. CRECCA:

And not so much opinion, but factually what went wrong?

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CHAIRMAN GULDI:

Well --

MR. MCGINN:

I'll render an opinion.

CHAIRMAN GULDI:

Yeah. It is a matter of opinion in terms of is there something wrong here, and if so, what is it?

MR. MCGINN:

When something like this occurs, it's generally like a plane wreck, there's multiple causes. You have, in most plane crashes you have three independent things that have failed that caused this thing to go down. In this instance, you had a series of things. We asked for apples, we got oranges. We used those --

LEG. CRECCA:

Can we use the actual terminology? I understand the analogy of the apples and oranges, what did you ask for and what did we provide?

MR. MCGINN:

We asked for Empire specific medi-prime rate categories for retirees. We received back rate -- these categories, but they didn't -- not people that were eligible in those categories, what we got were people for whom the County, retirees for whom the County had done Medicare Part B reimbursements. It wasn't the same information that we had asked for.



LEG. CRECCA:

Okay. But did you understand the information, and this might have to go to Ms. Carlisi or Mr. Guglielmo, but did you understand the information that you did receive? Because that was sort of the point of my question earlier, that this is what you do for a living, you know, I mean The Segal Company. So when you got those numbers, you knew that you got oranges, to use your analogy, correct?

MR. McGINN:

In retrospect when we look at this we know what we -- obviously, we know what we've got now. What I'm saying is that you're going to have to ask Frank, because he's the gentleman who was dealing with it, but I think there was a miscommunication.

LEG. CRECCA:

Frank, what did you ask for, first of all?

MR. GUGLIELMO:

We knew at that point in time that the Empire Plan had switched to a five-tier rate structure. The two under sixty-five structures and the three for the Medicare eligible people.

LEG. CRECCA:

Put the mike closer. Go ahead.

MR. GUGLIELMO:

We asked for a split of the lives that would give us the eligible retirees in the three new categories. We got a letter back from the Risk Management Office that had three categories of retiree lives. They called it Medicare reimbursement. I don't recall specifically going back that far, whether the letter actually said checks that were cut for these people or just Medicare reimbursement. We had no way of knowing that that wasn't the source for what we asked for. I mean regardless of what they called it --

LEG. CRECCA:

What did you ask for?

MR. GUGLIELMO:

The medi-prime eligible, people that would be eligible for the medi-prime rate category.



LEG. CRECCA:

Okay.

MR. GUGLIELMO:

We got back three categories, just what we asked for. The fact that they called it Medicare reimbursement eligibles or people who had checks cut for them under Medicare reimbursement didn't mean that that wasn't the source for the data we were looking for, so we used the data. We asked for three categories, we got three categories.

LEG. CRECCA:

And when you added up those numbers, you ended up at the end of the day with more employees than met the enrollment numbers that you were also getting, correct?

MR. GUGLIELMO:

Yes. That was the accounting error. And that happened because the numbers that they gave us, the way they were distributed, there was more Medicare eligible retirees in the individual category than our data indicated, they had total retirees in the individual category. So we assumed this was a new category of coverage.

LEG. CRECCA:

So are you saying your testimony that back in '98 when that new category was created and you requested the data, that you never made inquiry or just assumed that we had a new batch of employees now?

MR. GUGLIELMO:

I honestly --

LEG. CRECCA:

All of a sudden, overnight?

MR. GUGLIELMO:

I honestly don't recall whether I made inquiries into it. All I know is they were now telling me there was twenty-five hundred Medicare eligible individuals, single retirees, and we knew that the plan only had about eighteen or nineteen hundred total individual retirees.

LEG. CRECCA:

Right.

MR. GUGLIELMO:



So it was at least six hundred --

LEG. CRECCA:

I'm not an accountant, but right away I'd know that there's a problem there, correct?

MR. GUGLIELMO:

Right. So we assumed -- I'm thinking now, six years later, that we assumed it was a new category of people that would have been covered under the Empire Plan.

LEG. CRECCA:

As you sit here today, do you have any independent recollection as to what assumptions you made back then or not?

MR. GUGLIELMO:

Sitting here six years later I'm thinking the assumption was that it was a new category of people and that's the only explanation of why it could be greater than what we already knew the total could be.

LEG. CRECCA:

So you thought the numbers you were receiving were right?

MR. GUGLIELMO:

Yes.

LEG. CRECCA:

So when you got back oranges, I've got to go back to that analogy, you were satisfied obviously with the oranges that you got?

MR. GUGLIELMO:

Well, we thought we were getting back apples.

LEG. CRECCA:

There you go. No, you thought you got apples?

MR. GUGLIELMO:

We're just thinking in terms of it's a different brand of apple, you know, we asked for McIntosh, we got Granny's, but it was still apples.

CHAIRMAN GULDI:

I'm not sure if I follow this, but I'm sure I'm getting hungry.

MR. GUGLIELMO:

Basically we asked for apples, we thought we got apples.

CHAIRMAN GULDI:

I want to go back to the question I had on the table before you jumped in again, which was your opinion as to what went wrong, how it went wrong, why it went wrong and who, if anyone, is responsible for it.



And I want to hear that on the record. In fact, you know, anybody who wants to participate in that, but we can start at one end of the table

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since the Stenographer has trouble enough when both of us talk at one time.

MR. MCGINN:

As I started off by saying that these things generally are, result as a series of compounds problems, one being asking for something, getting something else back that we thought was what we asked for in the first place, McIntosh versus Granny's.

The next thing, because the total numbers didn't look, didn't look like anything else we had seen, the presumption that we may have a new group of people for whom the -- for whom the County would be required to make premium payments through Empire, but not under their own system.

Then beyond that, I mean we've gone -- part of our system of checks and balances involves the client. I mean we send drafts out and we say, does this look reasonable. And in that regard, like on February 1st, 2002, Larry and Dee met with Frank DeSanto and Oscar Ortiz and spent an hour and a half going over the calculation of the Empire costs and I believe Mr. DeSanto is a CPA.

And so one of the -- one of the other contributors to this problem was using member months. I've talked about that earlier, where you say if we've got ten thousand people for twelve months is a hundred twenty thousand member a month.

LEG. CRECCA:

I think it's worthy of interruption just so I'm clear and the record is clear, that even though you got back something different than what you had requested or somewhat different, there was never any further inquiry for clarification on either those numbers or the differences in what you received, is that correct, Frank, Mr. Guglielmo?

MR. GUGLIELMO:

We assumed at that point that what they gave us was what we asked for, the fact that it was --

LEG. CRECCA:

No. Your testimony earlier was that the information that you received was different than what you asked for. You know, that was the testimony, if I misunderstood that testimony, tell me, but you said



you asked for three categories and you got back three different categories of employees, isn't that correct?

MR. GUGLIELMO:

We got back three categories of lives that the source of those lives was Medicare reimbursement checks. We didn't know that that wasn't the source that they would have used to give us the medi-prime counts.

LEG. CRECCA:

Again I'll just ask, what did you ask for, medi-prime counts?

MR. GUGLIELMO:

Medi-prime counts.

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LEG. CRECCA:

And you asked for three different categories of those?

MR. GUGLIELMO:

Yes.

LEG. CRECCA:

Okay. What were the three categories you asked for?

MR. GUGLIELMO:

There was an individual category and two family categories, I believe.

LEG. CRECCA:

Okay. And what did you get back?

MR. GUGLIELMO:

I'm trying to remember back. I believe it was, they just called it Medicare reimbursement 1, 2 and 3.

LEG. CRECCA:

Okay. So at the time there was no further inquiry made that the different response that you got back, that it didn't match the medi-prime, there was no further question as to why the classification was different or what these numbers meant?

MR. GUGLIELMO:

I don't recall.

LEG. CRECCA:

You don't recall whether there was or you don't recall making further



inquiry regarding this?

MR. GUGLIELMO:

I don't recall making an inquiry and I don't recall whether or not, you know, we got any response on, if we did make an inquiry.

LEG. CRECCA:

Okay.

CHAIRMAN GULDI:

Legislator Caracciolo, we're going to have to give him a turn, all right, Andrew?

LEG. CRECCA:

Absolutely.

LEG. CARACCIOLO:

Mr. Guglielmo --

MR. GUGLIELMO:

At that time we got them we thought they were the correct numbers, we had no reason to suspect that they were wrong other than the individual account was greater.

LEG. CARACCIOLO:

That's really my question, Mr. Guglielmo. You knew that in one

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instance there were about eighteen, nineteen hundred lives, and in the other instance the data you received were about twenty-five hundred, I think that's what you said earlier?

MR. GUGLIELMO:

Yes.

LEG. CARACCIOLO:

Okay. Did you question that?

MR. GUGLIELMO:

That's what I don't recall.

LEG. CARACCIOLO:

Is there any -- would you have any recollection, could you go back and look at your files and see if there was any correspondence or any dialogue or anything like that that took place? I mean that's rather significant.



MR. GUGLIELMO:

Well, as soon as we -- as soon as this error was discovered in October of 2002, we started looking for documentation. We have not found anything written that would indicate that either we sent them a written request for clarification or got any kind of written request back.

LEG. CARACCILOLO:

And so this error was compounded for how long?

MR. GUGLIELMO:

Until -- it was still going on in 2002.

LEG. CARACCILOLO:

And the net effect of that error in dollars and cents was how much money?

MR. GUGLIELMO:

I don't know what the exact, you know, the number was. It was in the millions, but --

MR. SHEA:

When you say net effect, are you talking about, we've already had testimony that there were no losses, what do you mean by net effect, Mr. Caracciolo?

LEG. CARACCILOLO:

Okay. Well, I understand that there were no net losses, but from an accounting standpoint, the numbers are obviously much different than they would have been because of this accounting error, correct?

MR. GUGLIELMO:

Right. This was from like 1998 going forward.

LEG. CARACCILOLO:

And if you were to assign that a dollar value, what would that equate to?

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MR. GUGLIELMO:

I don't know.

LEG. CARACCILOLO:

Is there any way to --



LEG. CRECCA:

It's reflected in the -- who prepared the report, I'm sorry, to add on to what you're saying, who prepared the report in October of 2002 with the new comparison numbers?

MR. GUGLIELMO:

I did.

LEG. CRECCA:

Okay. Would that report -- that report reflected the difference with the new accounting numbers between the projected Empire cost, plan costs on the, with the corrected numbers? That was a bad question. The October 2002 report laid out what the errors, the accounting errors were in the numbers, correct?

MR. GUGLIELMO:

It corrected the accounting error, but the lives were still not correct because we did not have the actual three categories of lives going back to 1998. We had two categories of lives, individual and family, and we were told for the purposes of the new comparison, just use the same lives for all, whatever it is, four years of the comparison. So the same two categories we used all four years and because the original category, the original split had three categories, we just subtracted what was in the third category from this new family number and used that split.

LEG. CARACCILOLO:

So at what point did you reconcile these numbers?

MR. GUGLIELMO:

What do you mean reconcile the numbers?

LEG. CARACCILOLO:

Well, in other words, if we have this discrepancy of six, seven hundred additional lives and it's carried forward for at least four years, at what point in time did the red flag go up and say there's something grossly wrong here?

MR. GUGLIELMO:

I don't think it was a discrepancy of seven hundred lives, I mean if you looked at the three categories side by side, it's probably a fairly accurate count, it was just distributed in the wrong category. The individual count was overstated and the other counts were understated.

LEG. CARACCILOLO:

Who at the table could respond to or would care to respond to media reports concerning this matter and the representation made in some initial reports that the County, you know, that there's a dollar deficit here? Would anyone like to respond to that?



MR. MCGINN:

There is no dollar deficit as a direct result of the Empire calculation errors.

LEG. CARACCILOLO:

Was The Segal Company contacted by the media at any point with regard to the articles about the subject in Newsday, for example?

MR. MCGINN:

I'm not the right person to ask that question.

LEG. CARACCILOLO:

Is there anyone else who can answer that question?

MR. SHEA:

Can you be more specific, Mr. Caracciolo?

LEG. CARACCILOLO:

Well, certain, I don't want to call them facts, but there are certain reports, certain media reports that made representations about how this fund has lost significant sums, millions of dollars over the last ten years, and was your firm, Mr. Segal or anyone else, contacted for verification as to whether or not that was factual?

MR. SHEA:

I believe the Press Office of The Segal Company, the Public Relations Office has been contacted by various members of the media.

LEG. CARACCILOLO:

Do you know what their response was to those general inquiries about this program running into millions of dollars of deficit?

MR. SHEA:

I believe that everything you've heard here this morning from Mr. McGinn is generally how the company has responded on matters.

LEG. CARACCILOLO:

Okay. Thank you.

LEG. CRECCA:

Would it be fair to say that -- excuse me, George.

CHAIRMAN GULDI:

Go ahead.



LEG. CRECCA:

That general accounting principles were not followed in preparing the cost comparisons between the Empire Plan during that period from 1998 through 2002?

MR. SHEA:

Mr. Crecca, the witnesses here are not the appropriate people to respond to that type of inquiry.

LEG. CRECCA:

Well, let me ask, is Mr. Guglielmo an accountant?

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MR. SHEA:

No.

LEG. CRECCA:

No?

MR. GUGLIELMO:

No.

LEG. CRECCA:

Were any accountants used to prepare these numbers by The Segal Company for the Suffolk, for Suffolk County or were all non-accountants used?

MR. SINGER:

Okay. We are not an accounting or auditing firm, we're a benefits consulting firm and an actuarial firm. With regard to the production of the annual report, that is an analytical exercise performed by professionals we call Health Benefit Analysts. They are underwriters and actuaries who are expert in monitoring emerging insurance experience elements and comparing those to general factors that our actuaries report. That's typically not an activity that an accountant does, it's a separate skill set.

LEG. CRECCA:

Okay. Are there certain standards that actuaries follow and, you know, in this area of expertise?

MR. SINGER:

Sure. There are both practices that our company internally maintains and general professional standards as well.



LEG. CRECCA:

Just one second. George, if anybody else has questions, I need to look for something.

CHAIRMAN GULDI:

What I wanted to do is that I have distributed to the panel, if you will, and to some of my colleagues a copy of a draft of the annual report for year ending 1997, it is the July 16, 1998, draft according to the page two where that date is now obscured by the Post-it that appears to be covering it on the cover page.

Directing your attention to those Post-its, again the first page, but more specifically on the third page, my question to actually each of you is have you ever seen this document or these notes before, any one of you?

MR. GUGLIELMO:

I saw it Tuesday.

CHAIRMAN GULDI:

Tuesday. Okay. But did you ever see it around 1998?

MR. GUGLIELMO:

No.

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CHAIRMAN GULDI:

Who authored the 1998 draft report, was it a collaborative effort or were all of you or any of you involved in authoring the 1998 memorandum analysis report?

MR. GUGLIELMO:

It was authored by myself and another member of my team.

CHAIRMAN GULDI:

Great, okay. Customarily did you circulate drafts to County personnel before the final report was done?

MR. GUGLIELMO:

Yes.

CHAIRMAN GULDI:

And did those people include Phil Bauccio and Oscar Ortiz?

MR. GUGLIELMO:

Usually I only sent it to Phil Bauccio, he was my main contact.



CHAIRMAN GULDI:

Okay. But prior to, would you discuss the drafts with Phil or would you exchange drafts with him from time to time?

MR. GUGLIELMO:

Well, after he got a hold of the draft and had a chance to review it, if he had comments he would call me up and we would discuss it and I would probably mark up my copy and make any changes that we felt were necessary.

CHAIRMAN GULDI:

More than -- did you in 1998 ever discuss with him the Empire Plan comparison?

MR. GUGLIELMO:

I don't recall specifics of any conversations in 1998.

CHAIRMAN GULDI:

Well, the thing that strikes me in looking at the draft documents, that this draft or the document with the note to Oscar from Phil Bauccio at the bottom of page three that reads, "I think the Empire numbers are not correct, please review them and let me know what you think." Also the note above that, "I think the time has come to stop comparing us to Empire, it's been a long," I'll try the glasses. "It's been long enough and there are significant benefit changes."

And that after, in the ensuing monthly draft of this report, this analysis is dropped and never reappeared in an annual report. Do you remember having a conversation anytime with Phil Bauccio or anyone else in Suffolk County with respect to these concerns as to the relevance and accuracy of the comparison to Empire?

MR. GUGLIELMO:

No.

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CHAIRMAN GULDI:

Would conversations about changes in the annual report in 1998 have ordinarily been between -- been with you on behalf of Segal & Company?

MR. GUGLIELMO:

Substantive changes to the report would have been above my level.

CHAIRMAN GULDI:



I think he nodded at your direction.

MR. SINGER:

I saw that. And, in fact, I remember --

CHAIRMAN GULDI:

Have you ever seen these Post-it notes before?

MR. SINGER:

I've not seen these Post-it notes before.

CHAIRMAN GULDI:

Okay. And did you ever have a conversation with Phil Bauccio in or about 1998 about the accuracy and/or relevance of the comparison of the Empire Plan?

MR. SINGER:

I do not recall that conversation.

CHAIRMAN GULDI:

But where, the annual reports were prepared in Segal & Company on somebody's word processor there?

MR. SINGER:

That's right.

CHAIRMAN GULDI:

So the changes between the July 16, 1988, version and the next monthly version and/or the final version of this report were done on your computers?

MR. SINGER:

That's right.

CHAIRMAN GULDI:

At whose direction?

MR. SINGER:

We don't recall. Although I would have to say that it's not our practice to make changes in a work product without input from the client, this is the client's report. And as I said earlier, at some point in the past we were asked to put the table in, we wouldn't have unilaterally --

CHAIRMAN GULDI:

But in some point in 1988 you took it out?



MR. SINGER:

Yes.

CHAIRMAN GULDI:

This copy is floating around in our file and after this note was made on it came out of your report?

MR. SINGER:

Yes.

CHAIRMAN GULDI:

But you continued to do the comparison between Empire and Suffolk's plan anyway. Were you asked to continue to do that separately? I know you've already answered to your recollection, I'm trying to probe it and jar it a little bit.

MR. SINGER:

I'm sorry, I don't recall. As Mr. McGinn said, this was not a contracted for service, it was, I don't want to say an accommodation to a client, but it was in response to a specific request and I just don't have a recollection of how the thing stopped, how it started. Again, I'm sorry.

CHAIRMAN GULDI:

Do you have an opinion as you look at this now as to what Mr. Bauccio was talking about with respect to in the lower Post-it on page three with respect to the accuracy of the numbers, the Empire Plan numbers not being correct?

MR. GUGLIELMO:

Up to this point in time --

MR. SINGER:

I have no idea what it refers to, I don't know whose thinking it was.

CHAIRMAN GULDI:

Okay. Mr. Guglielmo?

MR. GUGLIELMO:

Up to this point in time through that seventy-seven million dollar number shown in the Empire column, the numbers are correct.

CHAIRMAN GULDI:

Up to -- you're looking at the bottom of page three, the seventy-seven million dollar number being?



MR. GUGLIELMO:

The one that's partially obscured.

CHAIRMAN GULDI:

I see the last column that's partially obscured.

MR. GUGLIELMO:

Right.

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CHAIRMAN GULDI:

Those numbers you believe through 1997 were correct?

MR. GUGLIELMO:

Yes.

CHAIRMAN GULDI:

Okay. So you don't know what he was referring to by numbers being incorrect?

MR. GUGLIELMO:

I have no idea.

CHAIRMAN GULDI:

Okay. I'm done with this document. I believe Legislator Crecca has found what he's looking for.

LEG. CRECCA:

Somebody made a comment earlier or a minute ago that it wasn't within the terms of the contract I guess providing the comparison numbers, but when did Segal start employ as a consultant with EMHP?

MR. SINGER:

We became a benefits consultant in 1992, Mercer was the actuary. And then subsequent to that, I think 1996, our role expanded.

LEG. CRECCA:

In '92, for example, did you provide that cost analysis, the comparison cost analysis in '92?

MR. SINGER:

No.

LEG. CRECCA:



Did you provide it in '93?

MR. SINGER:  
No.

LEG. CRECCA:  
When did you start providing it for Suffolk County?

MR. SINGER:  
I don't recall. Do you remember, Frank?

MR. GUGLIELMO:  
'96 or 7.

MR. SINGER:  
'96 or '97.

LEG. CRECCA:  
Did you decide to do that on your own or was it done in response to a request by the County?

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MR. SINGER:  
I think I was asked that question earlier and I answered it.

LEG. CRECCA:  
Well, I don't remember, so --

MR. SINGER:  
Okay. I don't remember by whom, but I'm sure -- but we wouldn't have unilaterally done it if we weren't asked.

LEG. CRECCA:  
My next question is for Mr. Guglielmo and/or Ms. Carlisi. Would it be fair to say in the preparation of your reports prior to September of 2002 and after the status change, which would have been about 1997, '98 in the Empire Plan with the categories, that membership had jumped, in the reports you were preparing, membership jumped from approximately eight thousand, eighteen thousand and change members to over twenty-two thousand members?

MR. GUGLIELMO:  
No.



LEG. CRECCA:

Okay. When you first were provided the Granny apples, no, the numbers from Audit & Control that indicated this spike in the number of enrollees, how much was it over and above by, approximately?

MR. GUGLIELMO:

Maybe -- I seem to recall around thirty-five hundred, but I'm not sure of the exact number. But that was only in that comparison, the worksheet that was the back-up for the comparison. Our reports still showed sixteen-five, seventeen thousand, whatever the number was. We were still thinking at the time that that was the number for the EMHP.

LEG. CRECCA:

You lost me there. You're thinking that the total enrollment numbers, one of the things you prepared, irrespective of the comparison, were you kept track of the enrollment numbers for the County, as a matter of fact, you received monthly reports from the County regarding the number of employees that were enrolled in the self insurance plan, correct?

MR. GUGLIELMO:

Right. And those numbers are reported on one of the tables in the report.

LEG. CRECCA:

Right. And that was something that was a regular part of Segal's reports, included the number of employees enrolled in the plan?

MR. GUGLIELMO:

The count of lives was in the report all the way up till the end, but that's the count of total lives as we knew them for the EMHP, which is around, like I said, somewhere in the sixteen to seventeen thousand during the period I was involved with the report.

LEG. CRECCA:

Okay. Was there ever any question made as to why there was a sudden thirty-five hundred member enrollment increase in the report, in the reports that you were producing at that point?

MR. GUGLIELMO:

No, because that's the accounting error, we weren't aware that there was a jump. I think Mr. McGinn mentioned that the calculation of the Empire Plan numbers were based on total member months, we got a report from the County that listed lives by month and a total at the bottom.



LEG. CRECCA:

I understand. I just want to know, really what I'm trying to get at was, was it your responsibility and Ms. Carlisi's responsibility as part of your duties to prepare both, and I know there was separate duties, the Empire Plan --

MR. SHEA:

Mr. Crecca, that calls for a legal conclusion as to responsibilities and I'm not going to have these witnesses talk about that.

LEG. CRECCA:

I'm not talking about their legal responsibilities, I just want to know did they also prepare the reports for the total members in the plan irrespective of the comparison?

MR. SHEA:

All right. Because it's been made clear it's not part of the contract, but if you're saying among themselves --

LEG. CRECCA:

I don't agree that it's not part of the contract, but that's a legal question that we'll let a Judge decide, but that's not my point here. My point is that what I'm trying to ask is did, and I don't know the break down of Segal and how it's structured, but were the same people who -- were Ms. Carlisi and Mr. Guglielmo responsible irrespective of the Empire Plan to produce the reports that became part of the annual report about how many members were enrolled and all that?

MR. SHEA:

Your question is who was doing work on this as opposed to who was legally responsible?

LEG. CRECCA:

No, who was doing the work? Were you producing those numbers for Segal, in other words, how many employees were in the plan?

MR. GUGLIELMO:

Yes. It was just simply reporting the numbers given to us by the County.

LEG. CRECCA:

Okay. And then another function of what you did was to prepare the comparison reports also?



MR. GUGLIELMO:

Yes.

LEG. CRECCA:

Okay. And there was never a cross reference to see if those numbers checked within your's and Ms. Carlisi's area of function?

MR. GUGLIELMO:

Again, there was, but that was the accounting error.

LEG. CRECCA:

Okay. I have no further questions, Mr. Chairman.

CHAIRMAN GULDI:

Promise?

LEG. CRECCA:

I promise.

CHAIRMAN GULDI:

Okay. I have just a couple. Mr. Singer, you told me you don't remember who asked you, but I wanted to try to narrow the field a little. Was it somebody from County? Can we limit it to the seventeen thousand people who are somehow covered by the plan?

MR. SINGER:

If the question is who asked us to put the comparison in the first instance?

CHAIRMAN GULDI:

Who asked you to prepare it or continue to prepare it, was it a member of the Legislature?

MR. SINGER:

No.

CHAIRMAN GULDI:

Was it Mr. Crecca?

MR. SINGER:

No.

CHAIRMAN GULDI:

We've eliminated Mr. Crecca, we've got seventeen thousand to go. Could you give me a class of category of who it might have been, who you spoke to?

MR. SINGER:



Absolutely, if I may? First off, I believe that the Mercer report, the County's prior actuary, started the process.

CHAIRMAN GULDI:  
It's clear, it's there.

MR. SINGER:  
Okay. I didn't remember that either. But if that's the case, then

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when we were engaged we were laid out a set of responsibilities. As I said, this annual report is, you know, assigned for our client's benefit, that probably was one of the sets of instructions.

Now with regards to whom, the relationship that we had was with the Joint Labor Management Committee and with the Office of Risk Management.

CHAIRMAN GULDI:  
So it was the Labor Management Committee, the Labor Office or Risk Management?

MR. SINGER:  
So the world of possibilities is limited to that.

CHAIRMAN GULDI:  
So within that role of possibilities, though, is probably someone in a -- it wasn't one of the clericals or functionaries, it was someone in a supervisory capacity probably?

MR. SINGER:  
Certainly, but I just have no recollection about it.

CHAIRMAN GULDI:  
Of who it was. So we've eliminated the pool from the seventeen thousand down to a couple of dozen people at most, but it was certainly someone in that management, we'll call it, group.

MR. SINGER:  
Right.

CHAIRMAN GULDI:  
Okay. All right. And I guess, you know, here's another one for anybody who wants a piece of it, that means I'll probably get Mr. McGinn again. Don't you have trouble with McGinn, but not with Guglielmo, I don't understand that.



LEG. CRECCA:  
He's Italian.

CHAIRMAN GULDI:

I mean a sense, you know, I'm going to take your hour and a half presentation and try to do it in a sentence, essentially what you're saying is that the comparison was irrelevant, inaccurate because it compares apples to oranges in the first place, we're back on the menu, anybody besides me getting hungry, it is getting to be lunch, was not relied on for budgetary purposes and ultimately didn't cost Suffolk County a dime in that it didn't result in anyone, any service or benefit being paid that shouldn't have otherwise been paid, is that in essence what the first hour was with the twelve documents?

MR. McGINN:  
Yes.

CHAIRMAN GULDI:

Further, I think to sum it up, is that the difference between the

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costs of the Empire Plan and the Suffolk plan, and anyone who doesn't think that New York State with a fiscal crisis and a budgetary problem is going to see a solid 1989 forty percent increase in the plan, in the plan rate for Empire Plan this year isn't reading the tea leaves the same way I am, at which point our enhanced plan will be less expensive than theirs again for the short term on it.

MR. McGINN:  
That is correct.

CHAIRMAN GULDI:

But the enhancements in the plan I think -- the point you made is the five cents on the dollar is, not even if it's truly that much and not conceding necessarily that it is that much, is not a substantial premium to pay for user satisfaction, is it?

MR. McGINN:  
My point there was that the value that was created for the benefit changes and the administrative systems used to support this plan exceeded the difference in cost.

CHAIRMAN GULDI:

And here's one that I haven't touched on, but the incurred but unrecorded expenses for the plan, I mean in order to go from self



insurance back into someone else's plan, those incurred but unrecorded expenses would have to be provided for, what level would be ordinarily anticipatable in terms of the annual percentage of plans to convert, you know, how much would that cost to do?

MR. MCGINN:

Between twenty and twenty-two million dollars. What would happen is that if you elected to go into an insured arrangement or some other arrangement where you were paying something that looked like premium, you would be -- you would have two expenses. One would be the monthly premiums that you would pay.

CHAIRMAN GULDI:

Paid in advance, not as costs were incurred.

MR. MCGINN:

Paid in advance, you pay it at the beginning of the month. So you have a cash flow issue that I'm sure that's been discussed.

CHAIRMAN GULDI:

That's how we got to self insurance in the first place.

MR. MCGINN:

Yes. And the second thing is that you cut this thing off at the end of the year, 12/31 any year, okay, that twenty, twenty-two million dollars of claims that have been incurred but not yet presented for payment or that are in the house but haven't been paid, those are the two pieces, they're going to run into January, February, March, you'll probably see seventy percent of it by then, you'll probably see ninety percent of it within five months.

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So you've got not only premium payments, which is pretty much a continuation of what your monthly costs were, you've got another twenty, twenty-two million dollars in cash flow expenses that will hit you right there.

CHAIRMAN GULDI:

So we can go back to an inflexible plan without the levels of satisfaction, without the enhancements, without the network provisions, take a twenty-five million dollar by the time we're in roughly one shot budget hit in the year to give up all the benefits that we have from self administration.



MR. MCGINN:

Precisely. I think that any reasonable processing going through consideration of just exactly what you said and moving back to an insured arrangement would have to include an exercise that says why are we going to do this? Oh, the cost is different. And then you start looking at what you lose in doing it and what you're going to gain by having that change occur, and it wouldn't happen, not here.

LEG. CARACCILOLO:

Just one question.

CHAIRMAN GULDI:

All right. Go ahead. I'll yield.

LEG. CARACCILOLO:

Mr. McGinn, would there be any gain, would there be any benefit?

MR. MCGINN:

I'm hard pressed to try and figure out what it would be. I mean I'm going to restate something that I can't say enough, that customer satisfaction in a plan like this is the single biggest benefit you give employees. You've heard people, and one of the reasons you changed was because you were paying eighty million dollars a year to Empire, the Empire Plan, and you had people that were unhappy with the service. So you're spending money and you've got unhappy people.

One of the overriding reasons for having a good benefit system is to be responsive and it's to create a high level of satisfaction, that is a combination of benefit level and support systems. And I don't honestly think enough credit has been given here to the group of people who put this thing together, and I looked at it from the outside looking in.

And I will tell you that it's an elegant system, it was nicely designed, it's very responsive to the participants. And it's -- in the order of things, a plan that's the size of this one would almost always be self-insured, it would always be self-insured in a corporate environment, most insurance companies wouldn't even underwrite it.

The arrangement that's in place with the Empire Plan is not exactly insurance, it's sort of a smoothing mechanism that sits there because they roll deficits forward and you wind up paying any deficits. That's one of the reasons you moved, they were rolling those deficits over.



So you've done all the right things. You've got somebody like VYTRA, who you are their single largest customer, as opposed to be in Empire where you'd be six percent of the size of the group and having no say whatsoever. VYTRA, in response to your requirements, has doubled the size of the provider network in the five year period of time specifically because of this group. And so you have constructed a plan that has contemporary and advanced medical management systems in it. I mean I could go on --

LEG. CARACCILOLO:

You've answered my question. Thank you.

MR. MCGINN:

Yes. It was a very, very good decision.

CHAIRMAN GULDI:

I lost my train of thought, because I yielded to you. That's all right, I'll go on without my thought. The point I want to say is that the one point you did make and what really brought us here is that we under budgeted for 2002, we ran out of money and the -- it's beginning to make me wonder why the special committee and investigation was started since that's not, unfortunately as our Budget Review Office might mention, that's not the only time or the only department we ever did that in.

MR. MCGINN:

I think that goes directly to the issue of some confusion regarding this Empire miscalculation and that issue, they are unrelated. But in the early stages, somehow they thought they were connected.

CHAIRMAN GULDI:

It's certainly clear that whatever was going on with the budget and the shortfall from the operating had nothing to do with the comparison, with the hypothetical comparison to Empire, in any event.

MR. MCGINN:

Correct.

CHAIRMAN GULDI:

I don't have any further questions. I want to thank you for coming in and for your time. Where's Jeff? Jeff Tempera, do you have anything you want to add? Is there anybody else who would like to be heard on this issue today?

Fellow Committee members, I suggest what we do is we adjourn without date. I think there are a couple of administrative County personnel that I'd like to speak to as Committee Chair rather than at special meetings and it's my contemplation that we should prepare a report and findings based on the testimony that we've heard.



**LEG. CARACCILO:**  
**Motion to adjourn.**

**CHAIRMAN GULDI:**  
**We stand adjourned. Thank you very much.**

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**(THE MEETING WAS ADJOURNED AT 12:30 P.M.)**

**{ } - DENOTES BEING SPELLED PHONETICALLY**

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